



Yoram Milo  
Executive Vice President  
Chief Legal Officer

October 13, 2003

VIA FAX (Original by Mail)

James T. Odiome  
Deputy Insurance Commissioner  
Office of the Insurance Commissioner  
5000 Capitol Boulevard  
Tumwater, WA 98501

Re: Premera's Proposed Reorganization  
Transaction Structure Recommendations in Draft Consultant Reports

Dear Deputy Insurance Commissioner Odiome:

The draft OIC consultant reports issued on October 3 contain various recommended changes to the terms of the proposed Premera reorganization. Premera has expressed its desire to engage in discussion of the transaction terms of concern to the consultants, with the goal of addressing those concerns in a manner that is mutually satisfactory to Premera, the consultants and the OIC Staff. We appreciate your prompt response to our request to enter into discussions and your fleshing out a process to undertake those discussions.

We share your desire to conclude such discussions long before the January hearing. We also share your sentiment that, to the extent changes are mutually agreeable and can be recommended by the OIC Staff and Premera as conditions for approval by the Commissioner, such proposed conditions should be addressed by the consultants in reports that are part of the formal record before the Commissioner. Similarly, we share your interest in making such proposed conditions known to the public, as well as to the intervenors, in a timely fashion.<sup>1</sup>

<sup>1</sup> The Holding Company Acts authorize the Commissioner to impose conditions upon his approval of a Form A application after considering all the evidence. The Commissioner could, therefore, impose conditions upon approval, the terms of which the parties and the public were unaware at the time of hearing. Such conditions do not amend the Form A.

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We do, however, have concerns about the schedule and approach you propose.<sup>2</sup> Fortunately, the schedule for the Form A proceeding affords more time for this discussion than contemplated in your proposal. At the October 8 hearing, Commissioner Kreidler made clear that he did not expect public dissemination of the consultants' final reports until sometime in November. Premera and the OIC Staff are discussing a public dissemination date in the November 14-21 period.<sup>3</sup> That gives us several additional weeks after October 27 to engage in discussion of the transaction terms without impacting the date on which the final consultant reports become public.

In the meantime, the consultants can meet their obligation to submit final reports on October 27 to the Commissioner and Premera by noting that such reports assume the transaction terms included in Premera's Form A filing, but also including a notice that (a) Premera and the OIC Staff are discussing conditions for approval that would alter the transaction terms critiqued in the Blackstone and Cantilo & Bennett reports,<sup>4</sup> and (b) any conditions regarding the transaction terms agreed after October 27 would be included in an update or supplement to the reports prior to the November deadline for public dissemination.

With that said, we also wanted to provide you specific comments on the schedule and approach contained in your letter. First, with respect to scheduling, the October 15 date proposed for Premera to submit its proposal is unworkable given the other deliverables

<sup>2</sup> The schedule you propose, as we understand it, is as follows:

October 15, 2003 (noon)	Premera submits proposal on transaction terms; OIC Staff to provide copy to consultants
October 20-22, 2003	Discussions between Premera & OIC Staff (with consultant input as determined by OIC Staff)
October 23, 2003	Notice by OIC Staff to consultants and intervenors of outcome of discussions
October 23-27, 2003	Consultants to incorporate and comment upon negotiated terms in their final reports (issued October 27, 2003)

<sup>3</sup> The Commissioner asked Premera and OIC Staff to discuss and recommend a specific date for public dissemination of the consultant reports, given the work that needs to be done on those reports. That discussion is ongoing. Mr. Hamje last week suggested November 14; Premera's counsel suggested November 21.

<sup>4</sup> Only the Blackstone and Cantilo & Bennett reports address the transactions terms at issue.



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already required by Commissioner Kreidler by that date.<sup>5</sup> In addition, we have not received the Alaska consultant reports, which we expect this week. We suggest an October 20 date for our submission instead. Next, the notion that mutually satisfactory solutions can be reached - and documented - to address the array of complex transaction term issues raised by the consultants in a two-day period (October 20-22) is not feasible.<sup>6</sup>

In addition, the format that you propose (excluding the consultants from the direct discussions with Premera) is a concern. The consultants have identified certain provisions of the transaction terms that they want addressed, based upon their perspective as experts in their respective fields. Thus, the Blackstone report comments from the investment banking perspective; the Cantilo & Bennett report comments from counsel's perspective in light of Holding Company Act requirements. Those consultants should be present so we can understand their concerns and discuss solutions. To carry on discussions through an intermediary risks miscommunication and delay and would prevent a meaningful dialogue.

In summary, we propose the following, which meets your primary concern of concluding these discussions in a timely manner without impacting the schedule for issuance or public dissemination of the final consultant reports. We propose to have discussion of open items with the OIC Staff, together with representatives of Blackstone and the Cantilo firm, as soon after October 20 (our proposed date for Premera's submittal) as you and the consultants are available to meet. That would give us until mid-November (four full work weeks) to complete discussions and for Blackstone and the Cantilo firm to issue supplemental reports before the expected deadline for public dissemination of the consultants' final reports.

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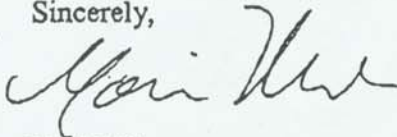
<sup>5</sup> Premera received the OIC consultants' draft reports on October 3. Consistent with the Commissioner's orders, Premera has until October 15 to submit its comments on the drafts to (a) identify items in the reports which are confidential and need to be redacted in the public versions and (b) identify factual errors in the reports. The draft reports are over 800 pages long and reflect a year of data collection and analysis by the consultants. They purport to reflect not only information provided by Premera, but also other data relied on by consultants (some of which has not yet been provided to Premera). Premera will meet the Commissioner's October 15 deadline. It is not feasible for the same review team to produce the document requested in your letter by that same date.

<sup>6</sup> In order to have any substantive "product" to communicate to the consultants or intervenors, the parties will not only need to reach agreement at a conceptual level, but also need to reach an understanding of the specific impact of such conditions and document the understandings that are reached.

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I suggest we schedule a conference call or meeting including yourself and Deputy Commissioner Watson, to discuss this further and finalize a schedule and approach.

Sincerely,

A handwritten signature in dark ink, appearing to read "Yori Milo", written in a cursive style.

Yori Milo

cc: Mike Watson, Chief Deputy Insurance Commissioner  
John F. Hamje, AIRC, Legal Affairs Division, Office of Insurance Commissioner